

Exploring the barriers to remittances in
sub-Saharan Africa

Volume 7

Removing the barriers to remittances in sub-Saharan Africa – recommendations

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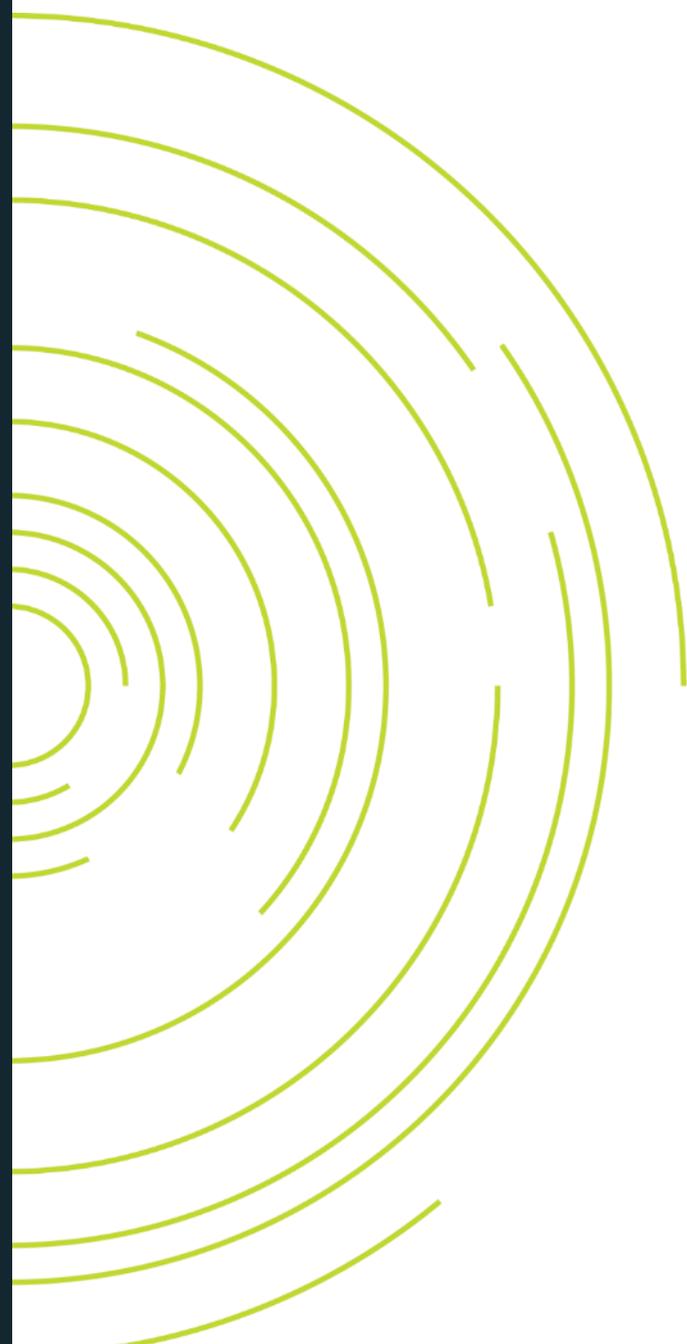


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About the series on barriers to remittances in SSA series

This note is the last in a series of seven notes that explore the supply-side barriers to remittances in sub-Saharan Africa (SSA). Currently, the average cost of remittances to SSA is 8.9% of the value of the transaction, compared to the global average of 6.8% (World Bank, 2020). Informal flows are rife, especially in SSA, and the trend is increasing in many corridors. The relatively low formal penetration, coupled with the high cost of remittances, the lack of access to required identity documentation and the lack of trust in formal financial services are indicative of a formal market that is not functioning optimally to serve people's needs, and especially lower-income people. To reduce the cost to between 3% and 5% of the transaction value, as agreed by the G20 and Sustainable Development Goals, without compromising the access of consumers in hard-to-reach areas, there needs to be an understanding of the current market impediments that are preventing formal costs from decreasing. This includes an understanding of both informal and formal flows and the various barriers that constrain the formal market.

This series provides an overview of the remittances market in SSA, the gaps and the barriers, to conclude on what is required to enable the formal market to fulfil its true potential.

The series is organised as follows:

- **Volume 1** provides an overview of key remittance corridors in SSA, from the perspective of the receiving and sending countries respectively. It analyses the correlation between migration and remittances and introduces a categorisation of countries.
- **Volume 2** outlines and ranks the market barriers to the efficient flow of remittances in SSA, drawn from existing literature and in-depth stakeholder interviews.
- **Volumes 3 to 6** explore how the barriers manifest in the region by presenting four country case studies from SSA: Côte d'Ivoire, Ethiopia, Nigeria and Uganda.

This note (Volume 7) draws conclusions and recommendations for SSA on how to overcome the barriers to reduce informality and costs without compromising access in the region.

1. Introduction

A lifeline for households. Remittances are defined by the International Monetary Fund¹ as “personal transfers” and “migrant remittances”. Personal transfers consist of “all current transfers in cash or in kind made or received by resident households to or from non-resident households”. Workers’ remittances are “current transfers made by employees to residents of another economy” (IMF, 2013). The advantage of these payments is that they usually flow directly into the hands of households, which increases household income and reduces the likelihood of falling into poverty (International Organisation for Migration, 2005). This monetary support has positive effects on both education and health outcomes, and it has been shown to support human capital development particularly in children (Gupta & Pattillo, 2009; Hassan, Chowdhury & Shakur, 2017). Especially in times of great global uncertainty related to the Covid-19 pandemic, remittances are crucial to many households around the globe. A systematic change in how these remittances are delivered and encouraged is now more important than ever – this is an unprecedented opportunity to act.

A direct impact on women’s empowerment. Women constitute the majority of remittance recipients globally. GSMA (2019) highlight that 60% of remittance recipients in Cambodia, Lao PDR and Myanmar are women, and 75% of these women live in rural areas. In Nepal, women represent 58% of recipients (UNCDF, 2019). The same trend can be found in Latin America, where women play a central role as recipients and managers of remittances. In Guatemala, they account for 63% of main remittance recipients, a number that goes up to 70% in Colombia (IOM and UN-INSTRAW 2007; IOM et al., 2007). Migration has also a direct impact on social norms in the country of origin, especially for women. In addition to money, migration entails the circulation of ideas, practices, skills, identities, and social capital between sending and receiving communities (Christiansen, 2012).

Pervasive informality. Volume I of the series took a deeper look at the relationship between formal remittance flows and migration in SSA. It showed that there are a number of underestimated corridors, where formal flows and migration do not match. The gap most likely stems from a high rate of informality in these markets and corridors. A study on remittance corridors in Southern Africa found that informal remittance service providers (RSPs) tend to have ties to the communities of both the senders and the receivers, meaning that they are more familiar, accessible and trusted than formal providers (FinMark Trust, 2016). However, in many cases, it is the combination of barriers in the formal sector that compels consumers to use informal services to cover their needs.

Formal sector barriers fuelling informality. Most senders and recipients in SSA conduct their day-to-day financial transactions in cash. The lack of convenient remittance access points for cashing in or cashing out remittances increases the opportunity costs to the consumer. In addition, RSPs usually require official documentation, such as national identification documents (IDs) or proof of address when sending or receiving remittances. These add cost and are often hard to obtain, particularly for those consumers who live in rural areas or

1 IMF sixth edition of the Balance of Payments and International Investment Position manual

immigrants who do not have all the requisite documentation² (Bester, et al., 2008). The barriers for the consumer translate into barriers for the RSPs, as they hamper the scale of flows that run through their systems and increase the cost of doing business.

Cost as a symptom. On average, SSA is the most expensive region in the world to send remittances to. It costs 8.9% of the transfer value to send into the region. In fact, for some countries, remittance fees can make up 16% of the transfer value³. These costs reflect the complexities of doing remittances business in SSA, as summarised in Vol. II of this series.

Conclusions and recommendations. This note (the last in the series of seven) aims to provide stakeholders that are active in remittance sectors with recommendations on how to systematically overcome the supply-side barriers to formal remittances in SSA. Figure 1 highlights how this note draws on the previous six volumes to answer the overarching research question on how the cost of formal remittances to the consumer in SSA can be sustainably reduced without having a negative impact on access points.

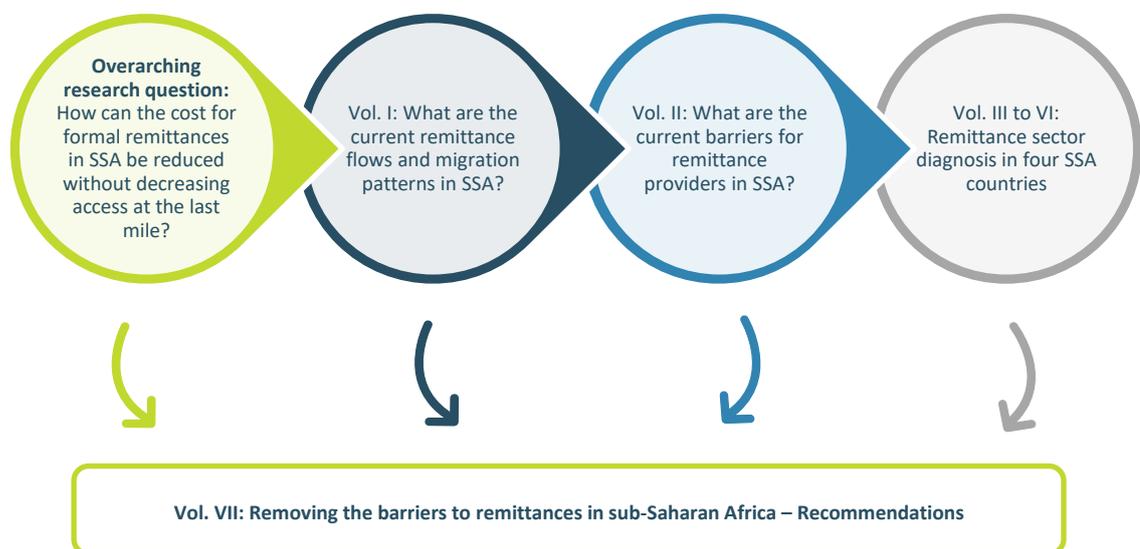


Figure 1. Supply-side barriers to remittances series overview

The note is organised as follows:

- **Chapter 2** summarises the findings from the previous six notes, with Section 2.1 providing an overview of the migration and remittance flow patterns, Section 2.2 giving an overview of the barriers in the region, and Section 2.3 adding the findings from the four country case studies.

2 Regulators and financial institutions are required to comply with Financial Action Task Force (FATF) guidelines on anti-money laundering and combating the financing of terrorism (AML-CFT) requirements, which require that certain ID to be present in order to use certain financial services, of which money transfer is one. The lack of official national ID and address systems in SSA often means that people in rural areas cannot access financial services due to regulatory barriers. For undocumented migrants, the precarity of their immigration status often precludes them from accessing official identification altogether, thus creating a barrier to accessing formal financial services (Bester, et al., 2008).

3 This value refers to the total average cost of transferring NGN40,000 (roughly USD200) from Nigeria to either Benin, Mali or Togo in the second quarter of 2019 (World Bank, 2019a).

- **Chapter 3** provides stakeholders with recommendations for regulators/policy makers, providers and development partners, and a roadmap to strengthening the remittance sectors in the region.
- **Chapter 4** offers concluding remarks.

Appendix 1 includes the full list of recommendations, aimed at those who want to engage with the topic on a deeper level and better understand the detailed implications of the broad recommendations described in this report. Appendix 2 lists relevant literature related to remittances in SSA, including international guideline documents, toolkits and existing remittance consumer research. Appendix 3 provides a summarised overview of the barriers encountered in the four case study countries (Côte d'Ivoire, Ethiopia, Nigeria and Uganda).

2. What we've learned so far

To inform how countries and regions can unlock more formal remittances in SSA, it is important to understand the current flows in remittances, the migration patterns as well as the existing supply-side barriers to formal remittances. This section summarises the findings from the previous six studies to paint a holistic picture of the SSA remittance sector. Section 2.1 highlights the trends around migration and flows and Section 2.2 recaps the supply-side barriers. For more in-depth information, please consult Vol. 1 and Vol. 2.

2.1. Migration and volume of flows

Intra-Africa flows growing faster than remittances sent into the region from abroad.

In 2017, USD37.7 billion in remittances flowed into SSA and USD12.2 billion flowed between countries in SSA. Intra-SSA remittance flows are growing faster than flows from outside the region, increasing by 22% between 2012 and 2016, while flows from outside SSA into the region only increased by 7% over the same period (World Bank, 2018).

West and East Africa receive most remittances in the region; South Africa is a big sender.

Nigeria is the top cross-border remittance receiver by a significant margin, with a total of USD22 billion received annually⁴. Senegal, Ghana, Kenya and Uganda follow Nigeria, as they receive on average between USD1.4 billion and USD2.2 billion annually. Seventy-nine percent (79%) of all remittances in the region are received by these five countries. The USA, UK and Cameroon⁵ are the biggest senders to SSA. Apart from Cameroon (sending USD2.8 billion), the top senders of remittances from SSA are South Africa (USD2.6 billion), Ghana (USD1.3 billion), Nigeria (USD1.1 billion) and Gabon (USD1 billion). Seventy-four percent (74%) of all remittances in the region are sent to other SSA countries (World Bank, 2018). What stands out in the top 10 SSA sender countries is that half are in the West African Economic and Monetary Union (WAEMU), showing how a common currency can facilitate impressive formal flows.

Mismatch between migration stocks and formal remittance flows. We find that there is not always a clear correlation between where SSA migrants live and where remittances come from. This is most likely attributed to inconsistent data but primarily due to the high informality in these markets. In Côte d'Ivoire, 62% of immigrants come from Burkina Faso, yet flows to Burkina Faso from Côte d'Ivoire only constitute 13% of remittance flows. This trend is evident in many other corridors involving SSA countries. Sixteen percent (16%) of SSA immigrants in the United States come from Nigeria, yet they send a staggering 78% share of all remittance flows from the US back to Nigeria (World Bank, 2018).

4 This figure might be grossly overestimated. In a recent interview the Director of the Corporate Communications Department at the Central Bank of Nigeria, Isaac Okoroafor, stated that the figure might be closer to USD2.6bn and questions the data collection methodology of the World Bank (Emejo, 2019). Such data disputes are common across the SSA countries with many lamenting the perceived remittance data inaccuracy, emphasising that common data standards are necessary to adequately capture remittance flows.

5 Remittances in Cameroon are largely driven by the vast number of Nigerian migrants that remit money home.

2.2. Supply-side barriers to remittances

Vol. 2 highlighted four categories of supply-side barriers that manifest across the case study countries and beyond: business case barriers, regulatory barriers, infrastructure barriers and consumer-related barriers. These barriers were collected through in-depth stakeholder interviews. Figures Figure 2 and Figure 3 list the collated supply-side barriers in the first, middle and last mile. “Cited” refers to the relative number of times a barrier was mentioned in literature and during stakeholder engagements; “cost” refers to the relative impact on remittance cost reduction should this barrier be removed; while “access” shows the relative impact on increased access for consumers, should this barrier be removed.

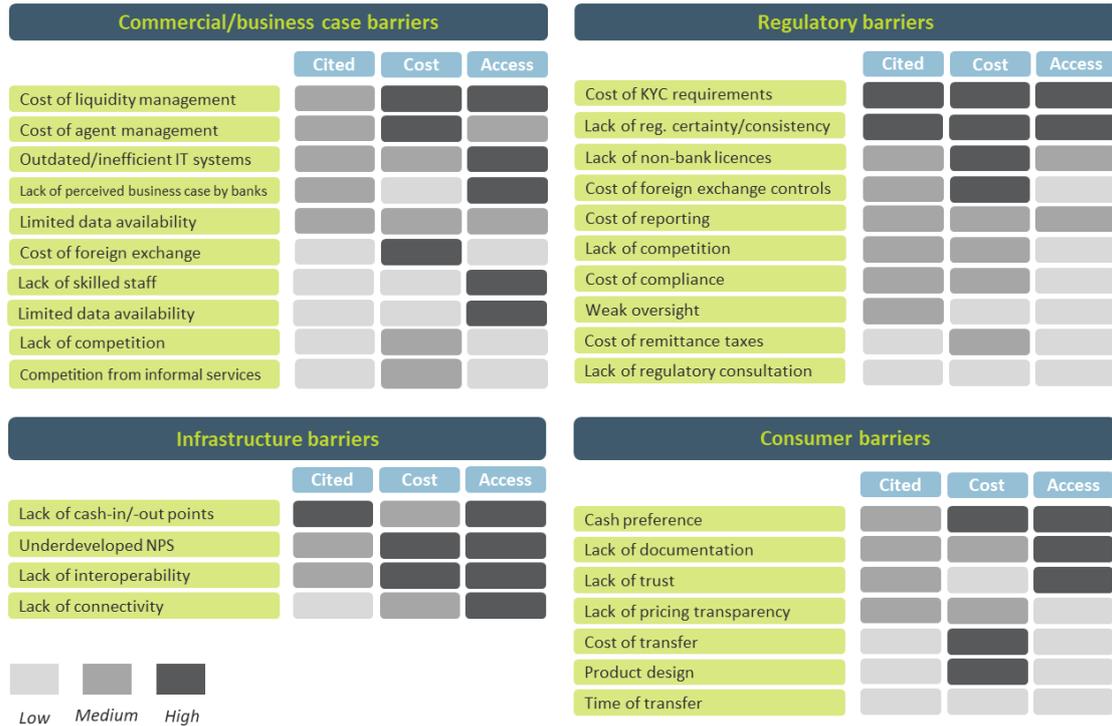


Figure 2. Overview supply-side barriers to remittances in the first and last mile.

Source: Authors’ own, based on data from various literature sources and stakeholder interviews.

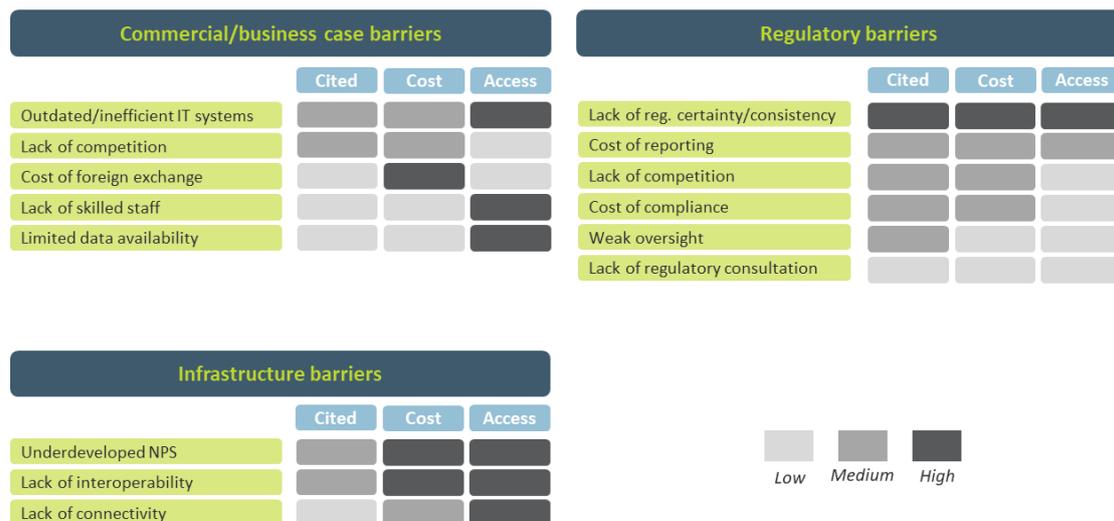


Figure 3. Overview supply-side barriers to remittances in the middle mile.

Source: Authors' own, based on data from various literature sources and stakeholder interviews.

Cash preference reinforced by lack of digital ecosystem. Overall, while the uptake of digital remittance services is rising, the vast majority of remittances are still received in cash. This is because there is a lack of digital ecosystems in SSA that enable enough variety and choice in spending digital value instead of cash. The recipient often dictates the channel through which remittances need to be sent based on the available last-mile cash-out points in the recipient country. Consumer trust in digital services is also still nascent; remitter groups tend to stick with their trusted provider.

The large number of barriers reflect a complicated remittance value chain. The supply-side barriers to remittances in SSA can be summarised as follows:

- The many illiquid currencies in Africa (coupled with consumers' preference for cash-out, instead of retaining digital value), add a significant cost layer in terms of foreign exchange and liquidity management.
- Onerous know-your-customer (KYC) requirements, especially in sending countries within SSA, drive consumers away and increase the compliance cost for providers. The documentation requirements imposed by the regulator and many correspondent banks are disproportionate to the level of risk posed by low-value, high-volume remittance transactions and are often not required by international bodies. Such restrictions disproportionately impact women who are less likely to have the official IDs required.
- The lack of competition in the region contributes to high charges, as the incumbents control the largest share of the market, mostly due to outdated regulatory practices. In some SSA remittance markets, competition has arguably stagnated into an equilibrium where it is not in the interest of any provider to introduce more efficient mechanisms, as these would entail costly changes for all incumbents. However, not implementing change can result in a lack of churn as consumers turn to informal mechanisms, which can be even more expensive for consumers.
- Cross-border partnerships are tough to form in an uncertain domestic and cross-border regulatory space. Remittances are often not at the forefront of politics, i.e. there is little

push to develop, harmonise or optimise the value chain, resulting in a slow-moving market. Cross-border remittances fall into multiple jurisdictions, which complicates the business model and increases integration costs. Furthermore, fast-paced advances in technology make it hard for the regulator to keep up, resulting in licensing delays and further increases in integration costs for providers.

- Outdated yet expensive legacy systems can prevent cost gains even if the remittance solution is innovative, especially where a lack of skilled technicians causes integration issues.
- Not all providers are necessarily overcharging consumers, given that often the basic payment infrastructure is not in place to run their services. If costs were simply reduced to the Sustainable Development Goals' target of between 3% and 5% of the transaction value, RSPs might opt to only offer services in the urban or easy-to-reach areas, effectively reducing the access for the harder-to-reach consumers. This should be kept in mind when considering the complexities of the remittance value chain.

Country case studies to illustrate specific examples. To showcase how the barriers play out in specific countries, we chose four SSA case studies. Nigeria, Uganda, Côte d'Ivoire and Ethiopia each faces unique barriers yet overlap, especially with regard to regulatory shortcomings and high cash use. Nigeria was chosen due to its vast amount of inflows that are by far the highest in the region, and its modernised payment system, which provides a useful glimpse of how to enable adequate payments infrastructure and the future of payment systems. Uganda has seen an impressive growth in the influx of formal remittance value over the past few years. The country has a well-established agent force and mobile money use and hence serves for an interesting case for other countries. Côte d'Ivoire was chosen due to its early licensing and the big success of cross-border mobile money schemes. Unlike the other case studies, Côte d'Ivoire is a net sender of remittances and has one of the highest remittance flows within SSA. Lastly, Ethiopia, together with Nigeria, has a vast diaspora footprint all over the world. Its nascent financial sector makes for an interesting case to understand how a heavily regulated remittance sector functions and how it can leapfrog remittance developments based on learnings from other countries. For an overview of the summarised barriers and enablers in these four markets, consult Appendix 3.

3. Recommendations to remove the barriers to remittances in SSA

This chapter outlines a pathway to reducing the market barriers to remittances. It summarises the necessary steps in the remittances value chain to achieve holistic reforms in the sector, from both a national perspective and a regional perspective, based on the extensive remittance research and in-depth stakeholder engagements over the past two years. The recommendations are tailored to regulators/policymakers, providers and development partners as key stakeholders in this space.

Remittance challenges difficult to overcome in isolation without a targeted approach.

Appendix 1 provides a comprehensive and detailed list of actions that can assist in overcoming each of the barriers for the various stakeholders. Given the different contexts and challenges in the various SSA countries, it is challenging to build a holistic approach to solving all remittance-related issues for the whole region. Remittances are a complicated, intricate business that require tailored interventions based on consumer needs, state and structure of (payments) infrastructure and the pertinent laws and regulation in each jurisdiction. This section reflects on the key actions that could be considered, yet the prioritisation of the required steps will depend on the context. We urge the reader to reach out to us to discuss specific country challenges in order to assist with building an appropriate country roadmap.

The five General Principles for International Remittance Services, compiled by the World Bank and Bank for International Settlements (BIS), are at the heart of our recommendations. These guidelines are summarised in Box 1.

Box 1: International guiding principles in remittances

The five General Principles for International Remittance Services were released by the World Bank and BIS in 2007 and were put together by a task force consisting of representatives from international financial institutions involved in remittances and from central banks in both remittance-sending and remittance-receiving countries. The five principles are:

1. The market for remittance services should be transparent and have adequate consumer protection.
2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.
3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.
4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.
5. Remittance services should be supported by appropriate governance and risk management practices.

In addition, these recommendations incorporate research by GSMA from 2017 on guidelines on international remittances through mobile money (GSMA, 2017) as well as IFAD/World Bank's report on the use of remittances and financial inclusion (IFAD & World Bank, 2015).

The long list of barriers and recommendations reflects the intricacies of the remittance value chain, especially when it comes to cross-border remittances.

3.1. Regulators, policymakers and government recommendations

The analysis of the supply-side barriers revealed that the perceived regulatory challenges contribute significantly to the cost of remittances in SSA. Regulators, policymakers and governments together hold a vital key to unlocking more formal flows on the continent. The remittance market is not a free market, as market access is restricted by regulation, which can create an uneven playing field and foster monopolies/oligopolies. The regulatory barriers are substantial, but there are clear potential paths to systematically and holistically achieve a regulatory environment that protects consumers, mitigates risk and fosters innovation.

Regulatory changes need to be carefully considered, as they can have widespread implications. The sequencing of actions is critical for success, and it is important to note that there is no one-size-fits-all approach to improving the regulatory environment, given the vastly different country contexts in SSA. We propose four succinct intervention areas for the authorities: base your policy on deep understanding of your context, regulatory amendments, infrastructure improvements, as well as supervision and clarification.

For a full list of recommendations, see Appendix 1.

3.1.1. Understanding the context

Understanding the local context is an essential part of making informed policy and regulatory decisions and developing a sustainable policy roadmap and action plan.

1. At the heart of a country roadmap of reform, regulators need to understand and quantify the gaps in the market, as in the country diagnostics that form part of this series (consult Appendix 3 for more information on the country case studies).
 - Roadmaps should consider consumer needs analysis from demand-side research⁶, provider mapping and needs analysis, a regulatory and payment system review, and an infrastructure stocktake. Knowing your baseline will assist in identifying key actions for each stakeholder that can be fed back into the roadmap⁷.

6 Consumer surveys and existing research, such as the FinScope surveys in Nigeria and Uganda, can inform government policy around increasing financial inclusion – a major prerequisite for the effective delivery of remittances.

7 If appropriate for the country, central banks and financial authorities could consider innovations such as central bank digital currencies (CBDC), proxy identity systems and standard messaging resulting in ubiquity of channels in their reform plans, given their potential to significantly disrupt the payments and remittance landscape. CBDC diagnostics can assist in assessing whether a retail or wholesale CBDC can overcome current challenges relating to national cash reticulation, monetary policy and account reconciliations between the different financial institutions. Identity proxies such as biometrics, mobile phone numbers or QR codes have the potential to unlock formal services for those that do not have access to traditional identity documents. The trend towards channel ubiquity shows how the consolidation of payments infrastructure, adopting modern messaging standards, and investing in real-time, low-value, high-volume processors forces providers to compete on services rather than price. This is because payments ultimately become a utility rather than a paid-for service given technological advancements in the same way that letters transformed into email.

2. To understand the necessary actions, the authorities should set up a reform **task force** and jointly develop a **country roadmap** for planned interventions. A roadmap of reform can assist in tailoring actions that are fit-for-purpose in a coordinated way⁸.
 - The task force should represent different regulators such as the payments and communications regulator, data privacy regulators where applicable, the ministry of finance, as well as private sector players. It should be given the right mandate to enforce agreed actions, with key individuals appropriately capacitated through international institutions and interactions.
 - Regional coordination and knowledge exchange are crucial to staying up to date with developments in the sector.
 - The roadmap should leave room for adjustments along the way to prevent bottlenecks from changing circumstances.
3. The authorities are the key enablers of innovation. To increase competition and prevent the further informalisation of remittances, a structured **regulation-for-innovation framework** can assist with attracting more providers into a market⁹. These frameworks allow new solutions to be tested in a controlled environment, often as product pilots, for the regulator to observe risk mitigation before a provider/product licence is issued. Implementing such frameworks may reveal the need for regulatory capacity-building and upskilling – supported by development partners.
4. Any regulatory reform should be preceded by understanding the implications for the entire sector¹⁰. **Appropriate regulatory impact analysis** can assist with understanding the implications of a planned reform¹¹.
 - Especially the effects of increased informalisation on monetary policy and financial stability should be studied to make an informed decision based on the long-term effects rather than the short-term financial gain.

8 Examples of such task forces and roadmaps are the Making Access Possible programme by the United Nations Capital Development Fund (UNCDF) (Cenfri, 2013).

9 While a formalised sandbox is often too onerous and expensive, other tools of test-and-learn can be adopted to help regulators understand the risks associated with innovation. Countries such as Mauritius and South Africa already have regulation for innovation frameworks while others such as Rwanda and Uganda are in the process of establishing a formalised process, allowing innovative solutions to operate within controlled parameters. An example: increasingly, for-purpose products are seen as a value-add to increase convenience for remittance senders. For-purpose products could include bill payments that go directly to the utility company, bypassing the remittance recipient in order to increase convenience. The ability to send a remittance directly to a company such as a bill payments aggregator, an insurance company, health facility or school has the potential to attract more remittance flows into the formal system. However, such for-purpose vehicles require collaboration with other regulators, for example the insurance regulator, to ensure that the increasing convergence of financial services can be accommodated and may not neatly fall into any existing license for a provider or a product. A regulation for innovation framework can help with understanding the risks associated with a new product and can give guidance around how to regulate such services.

10 For example, a planned mobile-money tax in CDI was scrapped in 2018 due to the successful lobbying of providers and the expected drop in DFS users. However, in 2019 the government did introduce a tax after all. Several other SSA governments, such as Malawi, are considering the introduction of such a tax or have already introduced one. The early impact of Uganda's mobile-money tax shows a substantial drop in DFS users. Reforms such as these can push consumers into the informal market, increasing the risk to the financial system, fragmenting scale for providers, and alienating consumers further from the formal system. Introducing a distortionary tax could impede or even worse, reverse, the substantial progress with incentivising consumers to increase their use of cashless payment methods. Zimbabwe's recent ban on using mobile money for cash transactions could be devastating for consumers and providers alike as cash out is an important use case for both. Rather than levying taxes on the fledgling mobile money industry, governments should consider enabling the growth of mobile money services by digitising the payment of fees, rates, taxes and levies due from taxpayers. This can expand revenue mobilisation.

11 A regulatory impact assessment is a document created before a new government regulation is introduced. It provides a detailed and systematic assessment of the potential impact of a new regulation in order to estimate whether the regulation is likely to achieve the desired objectives. The [OECD](#) has a list of examples where RIAs were deployed and where they were successful.

- Similarly, the monetary policy effects of currency pegging, capital and foreign exchange controls, as well as potentially mandating a minimum number of electronic transactions for providers to increase digital uptake could be carefully considered.

3.1.2. Regulatory amendments

Regulatory amendments can be cumbersome and may take several years to materialise. However, without a systematic overhaul of the legal frameworks, other interventions may fall short in creating sustainable change, improve robustness of the sector and support much-needed innovation. Regulators hold the key to long-term, inclusive remittance sector development. Patience and persistence are vital in achieving reform.

1. **The regulatory approach to anti-money laundering and the combatting of terrorist financing (AML-CFT) should be proportional.** Instead of prescribing stringent rules around compliance, regulators should empower providers to apply risk-proportional measures in order to ensure risk mitigation¹².
 - Mandatory proof of address offers no risk mitigation and should be removed from the list of requirements to access financial services¹³.
 - The authorities should prioritise the implementation and supervision of the risk-based approach (RBA) to remove the pressing particular KYC barriers that unjustifiably exclude many consumers from the formal financial system, without material risk mitigation. While most countries in this series have formerly adopted RBA, in practice it has not been implemented in any meaningful way.
 - To reduce operational costs for providers and increase convenience for consumers and providers alike, regulators should consider explicitly encouraging **electronic signatures** and **e-KYC** during the onboarding process. These enable consumers to conduct transactions from the convenience of their home and makes the onboarding process for agents more efficient. Paper documents do not offer higher degrees of risk mitigation. The requirement to store KYC documents in paper is outdated and unnecessarily increases operational cost.
2. **Proportional and clear licensing requirements** could be considered to increase competition in a market¹⁴. Regulators should review minimum capital requirements, access to payment rails, licensing fees and required documentation for RSPs with money transfer organisation (MTO) licences in order to foster easier entry into markets. For example, a tiered approach to licensing, as in South Africa or Zimbabwe, allows providers to offer services with reduced due diligence.
 - The **licensing of non-traditional RSPs**, especially for outbound transfers, can invite much-needed innovation in the market. Mobile money and e-money providers, among other non-bank remittance providers, can substantially increase the level of

12 Tick-box approaches focusing on rule compliance instead of proportional and directed risk mitigation can lead to greater risk in the financial system as static rules require to be constantly calibrated to changing risk across many sectors and are therefore highly vulnerable to exploitation by criminals and leave providers with little room to pick up on actual and changing suspicious transactional patterns.

13 In SSA, regulatory amendments and enforcement are particularly pressing in the case of KYC documentation. Overly stringent KYC requirements force consumers into the informal sector because many consumers do not have access to the required IDs. Several countries, e.g. Nigeria, offer tiered KYC requirements where consumers can access accounts with limited functionalities based on the robustness of their ID. However, tiered accounts are also based on rules rather than risk and should only be the interim step to a fully-fledged RBA.

14 Licensing regimes such as authorised dealers with limited authority in South Africa and Zimbabwe allow providers to offer services with reduced due diligence, i.e. have applied a tiered approach to licensing.

financial inclusion and formalise previously informal remittance streams given their rapid uptake by consumers¹⁵. Therefore, it is essential to create non-bank licences for cross-border remittances, such as Nigeria’s payment service bank licence¹⁶. These entities should also be considered for payment rails access where appropriate.

- The **licensing requirements for (super)agents**, such as minimum capital and required business documentation, should be carefully revised in order to incentivise a larger cash-in/cash-out network to accommodate consumers’ need for cash.
 - The authorities should also consider a license that allows providers to operate outside the banking sector in order to ease the compliance burden that partner banks impose on RSPs¹⁷.
3. To increase convenience for users, drive the uptake of digital financial services (DFS), reduce operational costs for providers, and level the competitive playing field, regulators should strongly **encourage interoperability** on automated teller machine (ATM), point of sale (POS), mobile money and agent level, where the market has reached a certain level of maturity¹⁸ in line with a market-led approach. Encouraging the use of standards such as **ISO 20022**¹⁹ would not only require providers to set up their systems that are able to accommodate sender/recipient ID or proxy information within the payments message but would ultimately result in a fully ubiquitous ecosystem that will save money in the form of streamlined efficiency for all actors. Ultimately, the goal should be the **ubiquity of channels** and interoperability is merely seen as an interim (and possibly unnecessary) step²⁰.
 4. Strong **consumer protection principles**, especially with regard to consumer recourse mechanisms and data protection in digital services need to be put in place, which can also cut across financial services requiring a coordinated, cross-regulatory approach. Consumer trust in the formal financial system is essential to reduce informal flows, requiring a timely and adequate regulatory response to the ever-increasing numbers of DFS fraud in most countries²¹.
 5. With the growing importance of mobile money in remittance service provision, a **coordinated regulatory approach** is essential. Especially the regulatory responsibilities between the payments and telecommunications regulators need to be clearly

15 With the widespread adoption of mobile money and the reduced costs of cross-border money transfers, regulators should create enabling frameworks for mobile money providers to offer cross-border remittances services. See some recommendations [here](#) for regulatory licensing.

16 The e-money licenses in CDI/BCEAO and Rwanda offer potential avenues. Nigeria’s payment service bank license is another example of how governments can invite providers other than banks to drive a country’s financial inclusion efforts.

17 The ADLA 3 to ADLA 5 class of institutions in South Africa is an example of this.

18 If mandated in a nascent market, the barrier to entry for new providers can be too high and onerous.

19 ISO 20022 is a messaging standard framework for financial transaction. The framework can be used for five financial business domains: payments, securities, trade services, cards and forex exchange. With regard to payments, ISO 20022 messages are available for the complete end-to-end payments chain. These messages can carry remittance information, including the sender and recipient account information, which can lead to increased straight-through processing and visibility into balances, increased mobility of cash across financial service providers, lower information technology support costs and easier maintenance and troubleshooting (ISO 20022 Education and Promotion Work Group, 2016).

20 In contrast to each payment channel requiring its own system for processing payments, channel ubiquity relies on a single piece of infrastructure to enable the seamless integration of different payment channels. Channel ubiquity creates a frictionless environment for payments as they become interchangeable within the system, as opposed to interoperable between siloed systems. Ubiquitous channels prevent the duplication of infrastructure, thereby increasing efficiency, improving control and lowering risk and cost. It facilitates scale more easily, as users from all channels converge onto the same platform layers (Dunn, et al., 2018).

21 For example, GSMA offers [mobile-money certification](#) based on international best practices with regard to consumer protection that could present a useful source of information.

demarcated to avoid exploitation of legal grey areas by providers. Memoranda of understanding (MoUs) between the different regulators are a first step but need to be translated into binding regulation to ensure mandate and enforcement capabilities.

3.1.3. Payment infrastructure

Infrastructure (including access to payment systems, electricity, network and road improvements, as well as universal access to a robust identity) underpins every formal remittance that is sent or received. Infrastructure improvements should happen parallel with regulatory changes in order to maximise the impact of reform.

1. The benefits of **regionally integrating payment systems** reach far beyond remittances. Efficient domestic and cross-border micropayments can enable an array of formal flows such as trade payments, e-commerce, for-purpose remittance payments as well as personal transfers. Therefore, the authorities need to enable provider access to an adequate payment system infrastructure.
 - While many governments see national payment system infrastructure as essential, research has shown that most national payment systems (NPSs) in Africa cannot be run sustainably due to the lack of scale²². This is not to say that a country should not have its own NPS – it is possible to keep data locally accessible and partition existing infrastructure that may not be located within the national borders to be accessible by one country only. However, the current duplication of infrastructure, such as the switch in Kenya and the planned switch in Uganda, is unsustainable and fragments scale. Therefore, governments could consider whether it is economical to insist on their own switch or other sunk-cost infrastructure when they could leverage existing switches in the region.
 - To systemically achieve a reduction in remittance costs, payment systems need to be **open-loop and fit-for-purpose**.
2. There is a need for more **real-time, low-value, high-volume retail payment systems** designed to reflect the needs of the consumers in countries that can accommodate the increasing demand for digital micropayments by consumers and providers.
3. A **digital identity system** that is accessible by providers and that is designed to accommodate the needs of all inhabitants of a country, including lower-income segments, and all vital payments use cases, has an enormous potential to remove the most pressing KYC barriers in the region. The authorities need to ensure that consumers in a country have access to a unique, robust and secure identity that allows them to lead their financial lives and beyond.
 - Digital identity databases, either set up by government or existing private players, should be at the very least **interoperable across providers** and be designed to enable eventual cross-jurisdictional integration in future. The system should ideally move away from an account-based setup that requires each individual to have a stored identity (and repetitious enrolment) at every institution, towards an ad hoc system where the consumer validates their identity once for all needs. The individual can then authenticate their identity with any institution, *de facto* becoming interoperable with the system. Ideally, industry-sector or national identity schemes

22 In our view, only South Africa, Nigeria, Ethiopia and Egypt currently have the ability to generate enough scale in their NPS to be able to operate their own switch and processing infrastructure. The other countries could consider positioning themselves regionally rather than domestically to increase the scale in formal flows.

should have multiple use cases and institution types that sustain the functionality through authentication and other charges where the costs of maintaining a database within a system are less than an individual process.

- **Data privacy and consumer protection** should be at the heart of any identity database scheme. Furthermore, the approach to selected identity identifiers should be **risk-proportional** in that the required security of an identifier increases with riskier transactions.
 - The authorities should consider the best form of **identity proxy**, whether it be biometrics or other multi-factor authentication, and enrol their population according to predefined global standards in countries where a good foundational ID already exists. The enrolment process should be **cost-effective and ensure access**, especially in areas and segments of the population that are hard to reach.
 - Where a government opts to establish a central database, providers should be mandated to plug in and use the centralised database to ensure consistent quality²³.
4. **Road, electricity and network infrastructure improvements** should be considered in areas where consumers are currently underserved but show enough economic activity.
- The active management of cash-in/cash-out networks through understanding the current distribution of encashment points, as well as **more effective vault cash management by central banks** can increase the circulation of money in the economy and spur higher economic activity in the formal sector for remittance senders and recipients. More effective cash reticulation in a market allowing consumers to transition easily between cash and digital value has the potential to sustainably achieve the shift from cash to digital in the long run.
 - To foster the expansion of an ecosystem that advances the uptake and usage of digital remittances, infrastructure updates to network quality and consistency are required in conjunction with the private sector. To increase uptake, however, the authorities need to understand the consumer drivers of increased DFS use and design **targeted awareness campaigns/teachable moments** around such insights, especially in migrant communities.
 - To increase cash reticulation and enable the gradual switch from cash to digital value, the digital ecosystem needs to be reliable. **Spatial mapping** can assist with picking the most adequate regions of a country to target first²⁴.

3.1.4. Adequate supervision, guidance and enforcement

Regulators play a crucial role in guiding and convening the various stakeholders in the remittance value chain in order to facilitate cooperation and innovation.

1. In line with increasing regulatory transparency and correctly reflecting market realities in regulation, regulators should **recurrently convene a roundtable** with providers, mobile and banking associations and other related institutions. These meetings will

23 The bank verification number (BVN) system in Nigeria and the national ID system in Uganda show how roll-out can be organised. This identity proxy can enable access to financial services by the previously excluded and set the country up for innovations such as CBDC.

24 For example, [GSMA Coverage Maps](#) overlay very high-resolution population distribution data with the coverage footprint of the mobile operators in a specific country, and can be used to identify areas which are not covered by mobile broadband.

serve to inform stakeholders about planned regulatory changes, get feedback on current issues, and clarify regulatory processes.

2. The regulator as well as the financial intelligence centres of the SSA countries also need to give extensive **guidance to providers** on the RBA. Providers still follow rules based compliance and not effective risk mitigation, mostly because there is a lack of data on ML-FT risks for their country and there is limited guidance. Mutual evaluations highlight progress and gaps that regulators then need to address by working closely with providers. Collecting data on risks in a country and designing a risk framework with providers can enable a faster implementation of RBA.
3. A **simplified reporting process** for providers can assist with reducing operational costs and promote the collection of **higher-quality remittances data**.
 - Regtech solutions can offer invaluable assistance, but only where there is sufficient capacity to maintain these solutions²⁵.
 - A big gap in the remittance sector in SSA is the lack of reliable data on formal flows. There is an urgent need to **improve the quality of remittance data** that the central bank collates and sends on to entities such as the World Bank and IMF. Both remittance volumes and values should be collected and submitted through a standardised format. The anonymised flows could be cross-checked against international processors, for instance international card associations on appropriate streams, to increase the data accuracy in line with data protection principles.
 - Clear guidance around the use of **balance of payments codes**, as well as a rationalisation thereof, can improve the quality of data. Submitted data should be diligently checked by the authorities.

3.2. Remittance provider recommendations

Apart from the substantial regulatory barriers that emerged from our research, business case/commercial barriers also considerably impact on a provider's strategy. Given that cross-border remittances, by definition, involve at least two partners (but in reality many more) and competition is still skewed towards incumbents, the recommendations are meant to assist providers in understanding their competitive advantage and foster market innovation as a whole.

Based on the findings of this series, we propose three succinct intervention areas for remittance providers: product and service improvements, diligent regulatory compliance, and innovation-driven operational adjustments. Each of these recommendations is discussed in this section. For the full list of recommendations, see Appendix 1.

3.2.1. Product and service improvements as competitive advantages

The remittance providers hold the most power when it comes to influencing consumer behaviour and adding value to people's lives. They will need to increasingly compete on customer service and value-added products in order to capture market share away from the incumbents.

25 The South African Reserve Bank, for example, is testing an interactive digital data portal and dashboard. Providers submit their reports to the data portal and the market intelligence is fed back to providers to give an overview of market share, formal flows etc. Such a system can also encourage improved data quality.

1. Providers should orientate their business model **away from a product view towards customer needs**.
 - Consumers **value reliability, convenience and speed, and are price sensitive**. Providers need to tailor their services to different needs of remitters.
 - Providing a big-enough **cash-out network** at the last mile is still essential, as people receiving remittances still conduct most of their everyday transactions in cash and need to quickly cash out in order to effectively access the value.
 - **Diversifying network channels** based on consumer needs, e.g. offering services through unstructured supplementary service data (USSD) solutions in addition to apps, can also increase trust and drive uptake. USSD is still the preferred channel in Africa, despite the growth in smartphone penetration and app use.

2. **Quality of service** is especially essential in an African context: Innovative technology is good, but it needs to work within the context of recipients – money transfer providers do not have the luxury of launching unrefined products, as customers’ trust is easily lost when it comes to effective access to money. Patchy network quality and electricity provision are realities in many SSA countries, which providers need to make provision for in order to guarantee consistent quality services.
 - **Real-time payment solutions** not only introduce convenience for the consumer/merchant but can reduce certain risks for providers. This, however, heavily depends on the implementation of appropriate and effective mitigation measures that should not adversely affect operational costs, given an increase in transaction frequency and decrease in average transaction value. Mobile-money schemes across the region have shown how this can be achieved.
 - Complete **transparency on pricing**, including full disclosure of foreign exchange margins that currently hide an array of additional costs opaque to consumers, increases consumer trust and can be used as a competitive advantage. Providers should participate in **industry-pricing comparison information portals**, which can be supplemented by third-party surveys, with the aim of increasing the overall formal market participation and not necessarily only individual market share. Transparency in exchange rate margins is especially important²⁶.

3. **Qualitative and quantitative consumer research** can significantly improve a provider’s understanding of necessary changes to their product and service quality. There is a research gap, especially around remittance senders in SSA, and the intended use of the remittance once received by the recipient.
 - An under-researched area of exploration is **value chain digitisation**. The consumer need for cash stems partially from the inability to spend digital value to the same extent as cash. Digitising whole value chains not only puts the onus on consumers to change their behaviour but incentivises all actors in the value chain to transact more digitally and cost-effectively. Providers could consider pilot projects to test the digitisation of certain value chains and thereby unlock liquidity opportunities, new use cases and new consumers in an expanded market within each value chain.
 - **For-purpose remittance products** where the money bypasses the recipient and flows straight to a bill payments company/aggregator, school or health facility

26 Initiatives such as [KNOMAD](#) and [finder](#) already exist but could benefit from real-time pricing comparison functionalities.

amongst others, have the potential to increase convenience for the recipient²⁷. The research will also reveal likely successful behavioural nudges to increase uptake.

4. Given the substantial barriers in KYC compliance, providers should make strides to **leverage innovative eKYC solutions** where regulation permits. In cases where a national digital ID system exists, providers should develop use cases for the system. Where no national digital ID system exists, private sector players can also explore the possibilities of enhancing the cooperative space to develop common digital ID systems.
 - Areas of consideration include using international standards when developing ID solutions, considering the most appropriate ID proxy system to authenticate a customer's identity, e.g. mobile phone number, biometrics, email addresses or a combination thereof, built on the national foundational ID that enables robust customer identification while still being convenient for the consumer within a given context (Cooper, et al., 2019).
 - Providers should either come together in a non-competitive space, in addition to regional and international catalysts, in order to influence the path of the regulator and possibly establish joint eKYC schemes to enhance both local and international compliance, decrease the cost of compliance and expand the boundaries of the industry as a whole. Alternatively, if the mode of compliance is being used as a sustainable competitive advantage, then such additional use cases become open to other providers through a transparent test-and-learn approach to regulation.
 - "Once registered always registered": Where national ID systems exist, the once-off registration of customers to **enable ad hoc/walk-in services** instead of establishing a fully-fledged account relationship or re-registering every time, with a view to customer retention could be considered²⁸.
5. With internet and DFS fraud ever increasing, the compliance with appropriate **consumer recourse mechanisms** has become a major driver of considerations by consumers. Tackling fraud quickly and effectively with an open communication policy with consumer protection agencies creates trust and mitigates risks for the provider. Consumer policies and guarantees at provider or even at industry level create trust, particularly when promoting a shift to DFS. Embedded insurance or industry, wholesale-underwritten insurance or guarantees are important assurances to expand markets and move to more cost-efficient modalities, particularly when merchant transactions and recourse are important.

27 Yet, cultural norms around remittances should not be underestimated. For example, in some cultures it is considered rude to dictate how the money should be spent, especially if it is sent to an elder (Rinehart-Smit, et al., 2020). Similarly, remittance patterns are gendered and these nuances should be reflected in innovative remittance products (Scharwatt, 2019).

28 "Once registered always registered" can also apply at the provider level if the industry is less coordinated. It only requires a means of uniquely identifying a consumer such as a biometric or other robust method as stipulated by regulation. There needs to be a distinction between a consumer profile and the operating of an account. Providers would need to keep track of past consumer profiles despite not having an ongoing business relationship to ascertain when a consumer crosses the line of ad-hoc services and becomes an ongoing customer in line with the FATF recommendations. Hence, "once registered always registered" enhances effective compliance with AML-CFT regulation and at the same time reduces the cost of compliance, particularly for ad-hoc consumers. It also decreases the industry risk in monitoring ad hoc profiles.

3.2.2. Operational adjustments to reduce the costs of doing business in the long run

Business model reorientation as well as operational adjustments are crucial to remain competitive in the region, as they can provide a competitive edge over incumbents.

1. Given the persistent gravity of cash in SSA, **cash-out needs to feature explicitly** in the business strategy for the time being²⁹. Cash-in/cash-out should be located within value chains to understand digitisation gaps and push digitisation at the right point in the chain.
 - **Partnerships with cash-heavy businesses**, such as petrol stations, retailers or even informal savings associations for cash management can help overcome the constraint of costly float management. This can be coupled with already available fintech solutions for **better agent and super-agent cash/float management**. Across the case studies, this was rarely found in practice.
 - Closely related to the cash-out strategy is **an appropriate agent expansion strategy** that focuses on bridging the gaps in market provision. Research on optimal points of service distribution, mobile phone coverage, location of cash depots and how to link to cash aggregators are important considerations for an optimal agent strategy.
 - Providers can consider developing an **agent interchange model with other providers** for better coverage of the population and to share agent networks with competitors. In any case, **agents should be interoperable**. Across the case studies, this was rarely found in practice as competitive positions, particularly with first-mover advantage, prevent the sharing of agents and override overall market growth potential.
2. The current setup of many **agent incentive structures** incentivises agents to drive the consumer to cash out their remittance. These incentive structures should be revised to drive digitisation. The more digital value can be kept in the system, the less need there is for cash from a consumer perspective. For this to happen, the focus should be on expanding the digital ecosystem.
 - Providers can consider **distinguishing merchants from cash-out agents** to lower commission costs and increase the uptake of goods and services instead of cash.
3. Closed-loop payment systems should be replaced by **leveraging existing local payment rails** that plug into regional payment systems in order to increase the total market size, in line with the move towards more open competition.
4. One of the major cost drivers for providers that operate intra-Africa corridors is the foreign exchange management cost. **Local-to-local currency hubs** can provide the necessary liquidity of volatile/illiquid currencies without the necessary need of pre-funding a multitude of correspondent banking accounts. Bypassing hard currencies such as the US dollar, euro or pound by exchanging local currencies directly for one another at a guaranteed daily rate can cut out costly intermediaries and even reduce the timing of transfers, opening the possibilities of near-real-time remittances. Trends suggest that correspondent banking relationships will continue to fall, and providers should take advantage of innovations in the space. A reduction in imported, inappropriate compliance burdens linked to hard currencies points to the inevitable development of

²⁹ While mobile money has driven a large chunk of digitisation, our research in Zambia and Kenya has revealed that mobile-money agents are seldom further than 5-15 kilometres from the next bank cash point (ATM or bank branch) and therefore do not necessarily reach remittance-heavy, yet rural, areas in a country (Cooper et al., 2016 and 2019a).

local-to-local currency markets. Local-to-local transfers can also help the remittance-receiving jurisdiction in obtaining scarce foreign currency or where there is state control around hard currencies.

5. In an optimal market, providers should opt for systems and services where **application programming interfaces (APIs) should be harmonised and open** to develop the ecosystem further³⁰. This common technical language, the API specification, enables easy integration between providers and organisations who want to interface with these providers.
6. To foster market development in the region, reduce the reliance on overseas correspondent banks that fragment the scale for local middle-mile infrastructure providers/systems, and take active part in the fourth industrial revolution, providers need to (re)structure their operational systems for **channel ubiquity** and **standard messaging formats**, such as ISO 20022. This would lead to greater efficiency in operational costs, given that all channels and instruments would use the same format and processes, allowing for seamless clearing. While interoperability is essential in building scale and providing convenience for consumers in the short term, it merely creates the illusion of efficiency, when in reality it is artificially retrofitting closed-loop payment streams on different operating systems to achieve a consumer perception. True ubiquity of channels can be more cost-effective in the long term and should explicitly form part of a provider's strategy.
 - In line with channel ubiquity, providers could explore how their systems would accommodate innovations such as **central bank digital currency (CBDC)** and assess the benefits of such systems for their own operations.

3.2.3. Proactive regulatory compliance and interaction to foster innovation

Given the extent to which regulatory compliance adds to the operational costs of providers, active engagement in the regulatory process is essential to ensure that the market realities that providers face are adequately reflected in regulatory reforms.

1. An **industry-led reporting model** and **industry-developed reporting standards** could be proposed to the regulator to ensure that compliance is risk-proportional and there is buy-in from the provider side³¹.
 - The cost of compliance for providers operating across different markets in SSA can be substantial. **A quantification of compliance costs** to build evidence to take to the authorities can assist in making a compelling case for regulatory changes³².
 - In markets that have already formally adopted the RBA to KYC and customer due diligence and the related ongoing monitoring, providers can take steps towards implementation by **voluntarily providing detailed anonymised transactional data** to the authorities. This assists in building regulatory guidance for providers for a particular country around the risks in a market. The RBA should be understood as an

30 For example, the [GSMA Mobile Money API](#) is an initiative aimed at helping the mobile-money industry speak the same technical language by providing a modern, harmonised API for mobile-money transactions and management that is both easy to use and secure.

31 In South Africa, for example, the regulator is currently testing an online platform that feeds reported data back to the industry as a market intelligence tool. Each provider gets insight on their market share, changes in flows, etc. enabling better risk mitigation and market overview.

32 Cenfri/FSD Africa are particularly active in trying to quantify the cost of compliance for institutions with the aim to assist all stakeholders with reducing the cost of compliance, please get in touch if you would like more information.

opportunity for providers to remove unnecessary documentation requirements, such as proof of address, and allow them to access a wider target market of lower-risk consumers.

- **Regular exchanges and check-ins with the regulator** and/or policymaker establish potential for **industry-drafted, regulator-approved policy and regulation** to reflect the realities of the market while ensuring market protection. Taking regulators to the field to witness the operations and realities in person can go a long way in taking the authorities along on the journey.
2. Risk mitigation and price/market stability is often the primary mandate of cross-border remittance regulators. When taking business model innovations to regulators, providers need to convincingly prove how they **plan to mitigate the arising risks** from the new products/services. Providers play an important role in introducing innovation in a market by clearly expressing and convincing the authorities where the current regulatory framework does not accommodate the proposed solutions, or no systematic approach to regulating for innovation exists.
 - Providers should make themselves available to participate in establishing regulating-for-innovation frameworks, commenting on proposed regulatory changes and conducting product pilots.
 - **Persistency and creativity** in explaining new products are key. Providers should take active part in commenting on proposed regulatory changes. Industry bodies should be formed or effectively leveraged on a regulatory level to affect change, i.e. active lobbying against harmful regulation.
 3. Remittance and social media/mobile-money taxes are distortionary to the industry. It is the providers' responsibility to **lobby against such taxes** by providing quantifiable data on the negative effects for consumers and business alike. Providers can also consider not passing the tax onto consumers and can use this competitive advantage to build a bigger customer base.

3.3. Development partner recommendations

Development partners play an essential and catalytic role in fostering the development of the remittance sector by expanding access to information, providing technical assistance to authorities and providers alike, and assisting with the funding of fundamental infrastructure upgrades. However, the assistance in the remittances space in SSA is fragmented and, at times, counterproductive, with different donor-funded interventions directly competing for scale in flows³³. Better collaboration in the development partner space would be beneficial to work towards a coordinated approach to remittance harmonisation in the region.

The three broad buckets of interventions are research and funding, technical assistance and convening stakeholders. Each of these themes is discussed in turn here. For the full list of recommendations, see Appendix 1.

33 Misdirected initiatives, particularly aiming at topical issues of the day, can disrupt or even cease longer-term, constructive processes or result in imbalanced and unsustainable markets where donor-dependant initiatives out-compete grass roots institutions, resulting in limited ecosystem development.

3.3.1. Research and funding to bridge specific market gaps

Arguably the biggest role of development partners is that of making information more accessible and complete in order to assist both regulators and providers in adequately assessing the current situation of remittances in a country.

1. Development partners can assist with **financial sector country diagnostics** such as the country case studies that are part of this series. The research pieces can build on existing research in a country and should map the status quo in remittances and other financial services and develop a roadmap in conjunction with the authorities to ensure buy-in. Part of these diagnostics are **gap analyses** of regulatory barriers and infrastructure needs, as well as in-depth interviews with market players and other stakeholders³⁴.
 - The quality of publicly available datasets on remittance flows that are comparable across countries can be questionable in some cases. There is a big gap in public **research around the volume of flows, channels used and the size of the informal market**. Development partners can support data quality initiatives, build publicly accessible data portals, and generally foster the sharing of anonymised data for research purposes.
 - **Trainings of government statisticians** in country and **regional workshops** – through partners such as the Alliance for Financial Inclusion (AFI), the African institute for Remittances (AIR), the International Fund for Agricultural Development (IFAD) and the regional Financial Action Task Force (FATF)-style bodies (Groupe d’Action contre le blanchiment d’Argent en Afrique Centrale [GABAC], Inter-Governmental Action Group against Money Laundering in West Africa [GIABA], Eastern and Southern Africa Anti-Money Laundering Group [ESAAMLG]) – with providers can bring consistency in data collection and industry-developed standards for reporting purposes with the aim to increase the quality and availability of market data.
2. The development of **data portals** for easy data submissions could be considered.
3. While this series aims to comprehensively capture the barriers, it is beyond our scope to research every angle of the barriers in depth. There is a serious gap in research related to remittances in SSA, and development partners can play a vital role in **narrowing this research and funding gap** beyond increasing availability and accuracy of remittances data. Specific under-researched and under-funded topics include:
 - Suitable regulation for innovation frameworks that have the potential to increase competition
 - Optimal, country/region-specific interoperable KYC processes that link into national ID databases
 - Offline digital transactions and offline digital identity systems
 - Consumer recourse
 - Easily accessible integration platforms (open APIs) for payment integration
 - Cloud-based consumer data protection
 - Profiles of remittance senders and recipients in SSA
 - Net impact of mobile-money/remittances taxation on monetary policy

³⁴ GSMA’s regulatory index is an example of this. It is an interactive tool that measures the effectiveness of mobile money regulatory frameworks in all markets: <https://www.gsma.com/mobilemoneymetrics/#regulatory-index>

- Net effects of foreign exchange control on monetary policy
 - Code of market conduct and treating-customers-fairly principles
 - The (behavioural) drivers of informality and digital uptake
 - How to digitise specific value chains including pilot funding
 - Move from interoperability to channel ubiquity
 - Regional payment system integration
 - Inclusive compliance
 - Regtech solutions for customer and data protection
 - For-purpose remittance products, including pilot funding
 - Retail CBDCs and their role for remittances
4. **Spatial country mapping of remittances cash access points**, including bank/MTO branches, post offices, microfinance organisations, ATMs, and agent networks, overlaid with population density data can inform current provision gaps for providers and authorities. The information needs to be updated regularly.

3.3.2. Technical assistance to regulators and providers to take solutions from plan to market

The appropriate skills to understand and deal with the risks associated with innovation through technology, as well as the technical integration of systems, are scarce in SSA, especially at the regulatory level. Development partners' resources and expertise can assist in ensuring that SSA regulators are equipped to sustainably reform and modernise the remittance sector.

1. Regulators need **capacity-building assistance**, in applying the RBA to AML-CFT supervision, adequate assessment of risks in terms of licensing new providers and/or innovative remittance products including digital ID proxy systems, regulatory drafting assistance, and regulatory impact assessments.
 - Technical assistance is required specifically with regard to **modern IT solutions for providers**, such as ISO 20022 channel integrations or similar. Development partners could consider supporting undercapitalised yet important institutions that are close to lower-income consumers with technical assistance around modernising IT systems³⁵.
 - Development partners could design and fund **bursary programmes or learnerships** with the aim to capacitate SSA remittance/cross-border payment regulators, funding of which can be conditional on deployment in a local institution to ensure skills transfer.
2. **Tailored toolkits on inclusive compliance models** that assist both providers and regulators/supervisors in reducing their cost of supervision can be useful ways to capacitate stakeholders to be more proactive in developing industry-led, regulator-approved compliance standards. Development partners can establish these toolkits and

³⁵ A good example here are post offices across SSA: while their market share in many markets is decreasing, post offices still have one of the biggest rural footprints in the region and play a crucial role for many rural consumers in terms of accessing formal services. Due to inefficient systems, post offices are no longer competitive in the cross-border money transfer space and could use the technical assistance with their systems, especially because they often enjoy regulatory exemptions in money transfer.

push for adoption by regional and global bodies such as regional FATF-style bodies and AFI.

3. To advance regional integration of payment systems and reduce the infrastructure barriers, development partners should **refrain from funding unfit-for-purpose domestic payment schemes** that are likely to operate at a loss without external funding. Deploying domestic switches should be carefully weighed up against the cost of integrating with existing, regional rails instead. The field of payment system development in SSA is fragmented with various donor organisations funding competing initiatives that ultimately create unsustainable closed-loop systems and are financially unsustainable.

3.3.3. Convene relevant stakeholders and foster strategic partnerships in the remittance value chain to enable market-led development

1. Development partners have a vital role to play in **convening various stakeholders** due to their impartial interests. A major gap in remittance markets across SSA is effective collaboration between the various stakeholder groups, which include remittance providers, regulators (e.g. communications, consumer protection, money transfer), policymakers, tax authorities, etc.
 - Not only do joint workshops serve as communication vehicles for planned industry changes but present a good tool to **jointly develop industry-drafted, regulator-approved principles** around topics such as data reporting standards, consumer risk assessments in line with RBA, consumer recourse and/or transparency of pricing. It is apparent that many jurisdictions are not aligned in terms of terminology around money transfer and remittances, causing confusion in the market.
 - These workshops should not only be held domestically but, in a further step, regionally. Existing convening institutions and initiatives such as the FATF-style regional bodies (i.e. GIABA, ESAAMLG, GABAC) and other mandated institutions such as AFI and AIR, could be supported and enhanced with research and funding.
2. Knowledge exchange of regulators should be supported by **organising cross-continental learning sessions and webinars** with regulators from other regions in order to learn from best practices³⁶.
3. **Design sprints around specific technological solutions** that strengthen the formal remittance market of a country could be organised and funded by development partners. Home-grown, innovative solutions that speak to the realities of providers and consumers have the potential to increase innovation and competition in a market.
4. Specifically, development partners could consider **funding pilots around CBDC, value chain digitisation initiatives** to increase the digital ecosystem of a country with the aim to reduce the demand for cash, as well as **foreign exchange hubs** that can offer currency pairings that do not rely on hard currencies for exchange in order to reduce the reliance on correspondent banking relationships, reduce the cost of foreign exchange and enable more efficient trade in the region.

³⁶ Online courses for regulators, such as those offered by the [Cambridge Centre of Alternative Finance](#) or [the Digital Frontiers Institute](#) can enable skills transfers at the right level of operations.

While the list of recommendations in this chapter is quite extensive, the prioritisation and sequencing of these steps are country-specific and cannot be prescribed. It is vital that there be a holistic understanding of the gaps in remittance provision in a specific country before an intervention plan is put in place. Appendix 1 offers more detail on each intervention, but please reach out to us should you want to discuss any element.

4. Conclusion

The cross-border remittance sector has been plagued by inefficiencies for many reasons and for many years – it is a complicated and long value chain with many different actors, interests and objectives. In times of Covid-19 and the resultant risk for remitters and remittance recipients, a well-functioning remittances system is more important than ever before. We need systematic and drastic changes to create a sustainable positive effect on the sector in the longer run. We invite all stakeholders to collaborate to achieve the removal of the supply-side barriers not only to support populations in the crisis but to create an inclusive system for future generations.

Remittances a key enabler of development in SSA. Remittances in SSA are a significant contributor, if not one of the most important contributors, to economic and human development in the region. Increasing the value of remittances moving through formal channels not only provides added security for both the sender and receiver of funds, but it also increases foreign exchange inflows into the formal economy, has the potential to increase the depth and breadth of financial services penetration, and increases the aggregate level of deposits and credit intermediated through the local financial sector. Remittances specifically benefit women and have proven to increase inclusive economic development in developing countries. Over two-thirds of migrants stay within SSA, yet formal remittance flows between African countries are alarmingly low due to the lack of options, high prices and lack of trust.

A series aimed at understanding supply-side barriers to remittances in order to maximise positive developmental effects. This series explored the existing barriers faced by providers in the region with the aim to holistically understand the most pressing challenges that prevent formal remittance channels from developing further, both in terms of reducing the cost of remittances for senders and recipients as well as in enabling consumer access that is not concentrated to only urban areas. This final part of the series provides an in-depth overview of the potential actions that various stakeholder groups such as regulators/policymakers, the private sector and development partners can take in removing the existing market impediments.

Stakeholder collaboration and fundamental changes key; no one-size-fits-all sequencing of necessary steps per country. The positive developmental effects of remittances can only be maximised if these stakeholder groups collaborate on a unified vision for the region and take collaborative action along fundamental principles, which are further outlined here. This is by no means an easy exercise, especially given the long value chain and competing commercial interests in remittances. To achieve sustainable change, there needs to be a fundamental change in the approach to remittances interventions. Without a conducive regulatory environment, infrastructure changes will only solve part of the puzzle, and vice versa. While this report provides a near-exhaustive list of possible interventions, it is important to note that any intervention should be tailored to the individual country in question. Understanding the status quo, the needs of consumers in a country, economic activity, available funding and the provider landscape will dictate the sequencing of necessary steps, and hence

reform by country could take many different paths. However, there are overlapping principles that apply in the entire region:

- ***Industry-drafted, regulator-approved proportional regulation and supervision key.*** The lack of harmonisation across AML-CFT and licensing requirements for providers and their agents, the lack of implementation of the RBA to AML-CFT, the trend towards taxing remittance inflows and/or outflows, differing consumer protection principles, foreign exchange controls and capital outflow caps, the lack of harmonised data standards, as well as restrictive regulation around access to payment system rails are generally the biggest cost drivers in the remittances value chain. Regulators and policymakers hold the key to unlocking more competition in the region and have the responsibility to harmonise approaches to regulation to unlock not only more formal remittances but also significantly increase trade across SSA. Proportional licensing requirements that encourage competition are key. Remittances in many SSA countries are seen as income opportunities for central banks in terms of foreign exchange and not primarily as the development vehicle for consumers, distorting incentives to revise regulation. The regular exchange with regulators from different jurisdiction as well as participation by providers in shaping regulation is therefore vital to ensure adequate representation of the market structures and functions. A big focus for regulators should also be in the enforcement of regulation, especially with regard to anti-competitive practices by providers, such as mobile network operators unjustifiably blocking access to USSD channels. Development partners should assist regulatory reform by filling specific research and funding gaps, both in terms of capacitation of regulators and by convening stakeholders for knowledge exchange.
- ***Payments infrastructure in each country in SSA should be fit for purpose.*** Closed-loop, competing payments systems, both domestically and cross-border, that are financially unviable in the longer term and fragment scale in remittance flows undermine the sustainability of a competitive remittance market. While the domestic authorities should orientate the country towards regional integration and interoperability of payment systems instead of insisting on domestic payments infrastructure, development partners should consider ceasing to fund expensive domestic schemes that are not profitable in the longer term. Innovations such as CBDC and channel ubiquity through the introduction of standard messaging formats and central clearing in other markets hint at the short-to-medium trends awaiting SSA: convergence in financial services ecosystems, channels and instruments, as well as low-cost, frictionless digital real-time micropayments that more closely align with the advantages of physical cash. To ride the wave of innovation and remain at the forefront of development, with regard to mobile money 2.0 in particular, providers need to prepare their systems accordingly. “Co-opetition”, the mix of cooperation in terms of infrastructure and competition in product/service offerings, will drive business models in future.
- ***Customer-centricity to remain competitive in the longer term.*** As mentioned, the cost of microtransactions is ever-decreasing thanks to technology and an increasingly digitised consumer base, and remittance providers need to re-orientate their business model towards customer-centricity in order to stay competitive in the longer term. Competing on product and service, not on pricing, will become increasingly key to retain customers. For providers, this means increasing the offering of value-added services to their money transfer products, such as for-purpose remittance products, playing on convenience of both sender and recipient. Due to the heavy cash dependency in SSA markets, especially from recipients, in the short-to-medium term, this also means that providers need to enable recipients to access cash conveniently at the last mile and not force them into holding electronic value that they cannot spend due to underdeveloped digital ecosystems. While RSPs can increase the access to cash through strategic partnerships

with cash-heavy businesses, value chain digitisation pilots could be funded by development partners in order to expand the digital ecosystem for electronic payments, reducing the consumer reliance on cash over time. Governments can drive the adoption of digital payment means by digitising government payment streams in the first instance.

- ***Use-case driven, adequate and interoperable national identity systems needed.*** The lack of access to required identity/KYC documents is one of the major drivers of customer exclusion in SSA and is responsible for a large proportion of informal flows. Undocumented migrants especially lack the required official documentation in many SSA countries, but requirements such as proof of address to open accounts increase costs/restrict access for both consumers and providers. Providers and authorities need to consider following the FATF guidelines and other international standards adequately, without disproportionate compliance that can result in higher costs, low risk mitigation and financial exclusion. Digital identity is no longer an option but a necessity to ensure inclusive development in the region – digital identity is a prerequisite for any digital payments' infrastructure and scheme. Countries need to prioritise the development of interoperable, regional KYC processes linking into local identity proxy systems that are based on individual country contexts. The ID databases should be developed in conjunction with providers to ensure financially viable use cases and encourage their use.

At Cenfri, we are committed to assisting interested countries with reform and research. We recognise that there are not many quick wins in remittances and that fundamental, persistent and patient engagement with all stakeholders is crucial to affect long-lasting change. Please get in touch should you wish to collaborate with us on further developing remittances markets in SSA and making the remittance sender and recipient better off with fit-for-purpose services within sustainable markets.

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Appendix 1: In-depth recommendations

Recommendations for regulators/policymakers



REGULATORS AND POLICYMAKERS	
Barrier	Recommendation
Cost of KYC requirements	<ul style="list-style-type: none"> Facilitate the deployment of interoperable CDD and ID proxy systems either centrally or through interoperable databases Facilitate access to a centralised, accessible financial/digital ID database Implement effective RBA/RBS to ML/FT; develop appropriate industry guidance Remove compulsory proof of address requirement; provide risk-based guidance on robust identifiers and identity Develop a mechanism of capturing identifiers where the product risk is low enough to warrant simplified due diligence, specifically for consumers without a formal ID Provide a regulatory framework and guidance on electronic onboarding, electronic signatures and e-storage
Lack of regulatory certainty	<ul style="list-style-type: none"> Harmonise regulatory regimes locally and regionally Clarify licensing processes and parameters Develop and implement an appropriate regulation for innovation framework Facilitate ongoing conversations with providers Develop a policy framework and appropriate guidance on industry-initiated and regulator-approved regulation Avoid frequent regulatory changes Conduct structured regulatory impact assessments Clarify demarcation between different regulators by means of policy, precise mandates and regulator MoUs
Cash preference	<ul style="list-style-type: none"> Assess and manage distribution of central bank cash depots Dynamic management of vault cash Consider mandating a minimum percentage of electronic transactions as part of licence Effective implementation and mandatory usage of electronic G2P, G2B and P2G, B2G channels for government Run DFS usage campaigns by leveraging teachable moments and embed digital literacy in school curricula Incentivise development of digital solutions by subsidising digital implementation Remove subsidies for cash and increase pricing for inefficient services Tackle DFS fraud with effective criminal response Mainstream digital skills into school curriculums and invest in digital literacy campaigns targeting migrant communities
Lack of interoperability	<ul style="list-style-type: none"> Strongly encourage ATM, POS, mobile money, and agent interoperability in line with market maturity with a view to achieving channel ubiquity Regional payment systems integration
Underdeveloped payment systems	<ul style="list-style-type: none"> Deploy fit-for-purpose payment systems Regional payment system integration Strongly encourage appropriate standards that enable interoperability that enable interoperability in line with market maturity Improve regulatory delineation between central bank and communications regulator on quality of service and supervision Review NPS ownership and operational structures Prioritise the development of real-time, low-value, high-volume retail channels NPS cloud processing at scale
Cost of liquidity management	<ul style="list-style-type: none"> Assess and manage distribution of central bank cash depots Dynamic management of vault cash Assist with digitisation of value chains through appropriate agent licensing requirements Set up appropriate cash depots aligned with institutional licensing Improve road and electricity infrastructure Enhance cross-guarantees of agent credit Consider central bank digital currency diagnostic pending deployment
Lack of cash-in/cash-out points	<ul style="list-style-type: none"> Strongly encourage ATM, POS, mobile money, and agent interoperability with a view to achieving channel ubiquity in line with market maturity Incentivise retailers to become cash-in/cash-out partners through appropriate cash-deposit service pricing Improve levels of financial inclusion and access through industry-developed, regulator-approved financial inclusion roadmap
Cost of agent management	<ul style="list-style-type: none"> Strongly encourage agent interoperability in line with market maturity Review agent labour legislation Review agent licensing requirements and superagent structures Enhance cross-guarantees of agent credit
Lack of competition	<ul style="list-style-type: none"> Actively mitigate anti-competitive provider behaviour Create provider licence outside banking licences Study effects of capital controls and currency pegging: net impact of informal activity on monetary policy and economy Prohibit exclusive partnership agreements Strongly encourage interoperability Establish clear consumer protection principles Increase financial inclusion levels Enhance cross-guarantees of agent credit

REGULATORS AND POLICYMAKERS

Barrier	Recommendation
Cost of licensing	<ul style="list-style-type: none"> Proportional minimum capital requirements and annual licence costs in relation to risks and competition
Cost of foreign exchange controls	<ul style="list-style-type: none"> Study effects of foreign exchange controls: net impact of informal activity on monetary policy and economy Increase number of sending licences for providers Conduct appropriate regulatory impact assessment
Lack of connectivity	<ul style="list-style-type: none"> Subsidise roll-out of 4G towers; engage in a public-private dialogue to identify the most effective approach to closing the coverage gap Increase electricity quality and penetration Initiate public-private dialogue around mobile coverage to drive network expansion and support quality of service
Outdated/ inefficient IT systems	<ul style="list-style-type: none"> Strongly encourage appropriate standards that enable interoperability Appropriate government infrastructure to enable government e-services (e.g. utility bill e-payment) CoPs by banking association; view to ubiquity and regional integration
Limited data availability	<ul style="list-style-type: none"> Rationalise balance of payments codes Monitor quality of data and specify which reporting is required at which provider level Feed reports back to providers to improve transparency Mandate the capturing of volumes and values of flows; implement cohesive standard Research on informal flows Guidance to providers on improving quality of data Where appropriate, vet and test against data of international processors to increase periodic audits and systemic data quality checks of submitted data in line with data protection guidelines
Lack of skilled staff	<ul style="list-style-type: none"> CoPs by banking association; view to ubiquity and regional integration Trainings of trainers; deliberate focus on upskilling Leverage online resources Improve school curriculum and university course content; increase number of technical graduates Study exchanges with other regulators globally/ regionally Implement national/regional skill certifications
Lack of interest by banks	<ul style="list-style-type: none"> Introduce requirements for banks to deliver fair and equal service Introduce e-money licence that is supervised as a financial institution and can link into payment system (bank only acts as settlement sponsor bank) Proportional reporting and licensing Attach bank sponsorship requirements to banking licence (potential scoring system)
Cost of remittance taxes	<ul style="list-style-type: none"> Study the st, mt and It effects on uptake/usage of DFS Conduct regulatory assessments on key metrics (e.g. cost, spread, access) Study net effects of informality on monetary policy Lobby with tax authorities for the removal of tax on remittances
Lack of regulatory consultation	<ul style="list-style-type: none"> Ongoing conversations with providers Clear commenting process for draft regulation Conduct regulatory assessments Implement industry-drafted, regulator-approved regulation and give guidance to providers Develop policy recommendations with industry
Lack of trust	<ul style="list-style-type: none"> Introduce and enforce robust consumer protection and recourse mechanisms (mandate visibility, process and clear communication of recourse mechanisms to consumers) Tackle DFS fraud (fraud-loss reporting to raise awareness around deficiencies in the system) Avoid frequent regulatory changes; ensure regulatory consistency and clarity in communicating Mandate consistency in quality of service (national standards) and enforce standards Implement appropriate standards on safety and availability of points of interaction Bridge the gap between formal and informal mechanisms by creating appropriate licensing regimes
Cost of compliance	<ul style="list-style-type: none"> Regional harmonisation of standards appropriate to risks Industry consultations Develop electronic portals for compliance Align compliance procedures Provide a risk-based supervisory framework for cross-border remittances to isolate risk and enable proportional compliance responses Implement shared identity platforms and methods to streamline compliance efforts
Time of transfer	<ul style="list-style-type: none"> Regulate quality of service Advance the development of real-time, low-value, high-volume retail channels Strongly encourage interoperability with a view towards channel ubiquity in line with market maturity Align compliance processes with RBA Move to a scale-favouring regime of licensing Promote aggregation of operators and regionalisation of operators/schemes to reduce the complexities of integration Push for centralised proxy services for real-time payments

Recommendations for remittance providers



REMITTANCE PROVIDERS	
Barrier	Recommendation
Cost of KYC requirements	<ul style="list-style-type: none"> Develop use cases for interoperable ID proxy systems Adopt an effective risk-based approach Improve quality of collected KYC data Understand, model and track costs of compliance per product and implement sustainable, risk-appropriate measures Apply risk-based, KYC-resultant efficiencies in a competitive strategy
Lack of regulatory certainty	<ul style="list-style-type: none"> Regular check-ins with the regulator (e.g. through participation in forums between industry and regulator(s)) Focus on understanding and mitigation of risks when presenting to regulator Persist in convincing the regulators and offer policy guidance Advance the effective flow of information
Cash preference	<ul style="list-style-type: none"> Understand consumer demand through qualitative and quantitative research Align agent incentive structures between cash-out and electronic transactions Improve consumer awareness and understanding of DFS through teachable moments and by mainstreaming digital skills via school curricula Tackle DFS fraud Deploy behavioural nudges and structural changes where necessary Increase focus on digital solutions for intra-Africa corridors Develop value-added digital products, such as for-purpose products Set up value chain digitisation projects
Lack of interoperability	<ul style="list-style-type: none"> Understand the business case for interoperability and integrate voluntarily Put in place ubiquity of channels infrastructure as the ultimate goal Research and prepare systems for central bank digital currency
Underdeveloped payment systems	<ul style="list-style-type: none"> Utilise local rails where feasible Decrease the number of closed-loop systems by focusing on regional/international open-loop system integration Open and harmonise APIs Enable real-time/instant payments Push industry bodies to focus on regional integration
Cost of liquidity management	<ul style="list-style-type: none"> Leverage fintech solutions for better agent float management Agreements with cash-heavy businesses for better float management Consider superagent structures Pilot digitised value chains amongst partner institutions (e.g. banks, trade organisations) Research and deploy effective agent roll-out strategies
Lack of cash-in/cash-out points	<ul style="list-style-type: none"> Partner with retailers/aggregators Revise agent roll-out strategies Locate cash-in/cash-out within value chains to understand digitisation gaps Research on optimal points of service distribution, location of cash depots and how to link to cash aggregators
Cost of agent management	<ul style="list-style-type: none"> Rationalise agent forces with competitors Revise agent incentive structures in line with the chosen ecosystem development model Digitise agents Develop interchange model with other providers for better coverage Drive interoperability Incentivise for-purpose remittances at agent level for better agent retention Distinguish merchants from cash-out agents to lower commission costs and increase the uptake of goods and services instead of cash
Lack of competition	<ul style="list-style-type: none"> Gap analysis of agent network in recipient country Understand consumer demand and preferences Develop value-added digital products aligned with market demand Increase marketing efforts Introduce appropriate transparency in pricing, especially in the foreign exchange margin, as a competitive advantage Aggregate correspondent banking relationships Use foreign exchange hubs for local-to-local transactions Link with informal agents to formalise flows (use informal agents' tight-knit network to increase scale)
Cost of licensing	<ul style="list-style-type: none"> Regular check-ins with regulator Participate in regulation for innovation pilots Understand the risks in-depth to propose appropriate licensing
Cost of foreign exchange controls	<ul style="list-style-type: none"> Provide regulator with cost estimate of foreign exchange controls and their effect on consumers/the economy
Outdated/inefficient IT systems	<ul style="list-style-type: none"> Integrate with ISO20022 (there are slimmer versions possible) Leverage slimmer fintech solutions and open APIs; utilise combined industry providers CoPs by banking association; view to ubiquity and regional integration
Limited data availability	<ul style="list-style-type: none"> Push for industry-led reporting models to better understand industry potential Develop industry-led reporting standards

REMITTANCE PROVIDERS

Barrier	Recommendation	
Lack of skilled staff	<ul style="list-style-type: none"> Develop learnership/intern programmes and partner with academic institutions for placements Send employees on knowledge exchange missions 	<ul style="list-style-type: none"> Design systems and processes to accommodate different staff skill levels
Lack of interest by banks	<ul style="list-style-type: none"> Improve angle of business case to present to banks Improve business case data collection 	<ul style="list-style-type: none"> Focus on benefits for bank keeping funds in perpetuity Improve reporting and quality of data Aggregate correspondent banking relationships
Cost of remittance taxes	<ul style="list-style-type: none"> Lobby against mobile money/remittances taxes Adjust pricing model so that consumers are not hindered by taxes 	<ul style="list-style-type: none"> Assist with research/anonymised data on impact of taxes on flows
Lack of regulatory consultation	<ul style="list-style-type: none"> Regular check-in with regulators Comment on proposed regulatory changes; proactivity Take regulators to the field to show realities on the ground 	<ul style="list-style-type: none"> Create and participate in regulatory forums at the right level; be open to research areas for industry development Align with global/regional initiatives on regulatory guidelines
Lack of trust	<ul style="list-style-type: none"> Increase pricing transparency, especially in foreign exchange margin Tackle DFS fraud by sharing information around fraudulent activities and best mitigation practices Improve agent liquidity and quality of service Introduce efficient and quick consumer recourse mechanisms Train agents on how to assist customers in a transparent way Use pricing transparency as a potential competitive advantage 	<ul style="list-style-type: none"> Participate in industry-pricing comparison information portals Orientate business model away from product view towards customer needs (fit-for-purpose consumer services - geography, ability etc.) Once-off registration of customers to enable ad-hoc services with a view to customer retention Guarantee quality of service Invest in real-time payment capabilities for consumers and merchants
Cost of compliance	<ul style="list-style-type: none"> Automate compliance processes Effectively implement RBA to CDD and ongoing monitoring/evaluation Consider business case of risk-based compliance modalities and systems (e.g. risk-weighted identity, innovative KYC verification) 	<ul style="list-style-type: none"> Participate in compliance innovation test-and-learn case studies with the regulator Eliminate proof of address requirement where not specifically required in regulation/guidance Survey and assess risks particularly of low-value, low-volume accounts
Time of transfer	<ul style="list-style-type: none"> Aggregate correspondent banking relationships to reduce the number and complexity of accounts, as well as to enable guaranteed foreign exchange positions Improve interoperability and quality of service of partnership models 	<ul style="list-style-type: none"> Select payment system operators/hubs with local/regional presence Increase online security screening and monitoring

Recommendations for development partners



DEVELOPMENT PARTNERS		
Barrier	Recommendation	
Cost of KYC requirements	<ul style="list-style-type: none"> Research interoperable, regional KYC processes linking into local ID proxy systems and explore seed funding modalities Assist with the development of guidance on risk-based, innovative KYC modalities at regional FATF-style bodies Host regional/national workshops and conferences on e-KYC, ID proxies and RBA/RBS Assistance with sectoral consumer risk assessments to moderate the KYC regimes applied 	<ul style="list-style-type: none"> Tailor toolkits for implementation of inclusive compliance modules domestically and regionally; provide technical assistance Assist regulators and policy makers with regulatory analysis and/or policy recommendations on CDD Promote the integration and harmonisation of mobile digital identity/biometrics and the national identity/biometrics databases
Lack of regulatory certainty	<ul style="list-style-type: none"> Regulatory gap analysis understanding the key priorities for the particular jurisdiction Regularly convene regulators regionally; insist on continuation of individuals Provide funding and technical assistance for the development of a regulation for innovation framework 	<ul style="list-style-type: none"> Provide funding and technical assistance for regulatory impact assessments Survey regulators, policy makers and industry to create common understanding of regulatory gaps and inefficiencies Provide regulatory drafting assistance that bridges international norms and domestic requirements
Cash preference	<ul style="list-style-type: none"> Research on drivers of digital uptake, including piloting of CBDC as a mobile money instrument Fund value chain digitisation pilots and proof of concepts Spatial mapping of points of interaction Fund design sprints for digital solutions 	<ul style="list-style-type: none"> Qualitative analysis of cash versus digital usage Analysis of ICT infrastructure (type of network channels, quality of service etc.) Investigate the implementation of offline digital payments modalities
Lack of interoperability	<ul style="list-style-type: none"> Research and sequential plan on movement from closed-loop to interoperability to ubiquity Assess current digital instruments and their respective security, and develop sequential implementation plan towards a more secure common instrument 	<ul style="list-style-type: none"> Loan financing for banking systems to increase efficiency and access to interoperability Develop common integration platform allowing smaller providers to interoperate Fund regional, secure systems at scale instead of unsustainable national payment switches
Underdeveloped payment systems	<ul style="list-style-type: none"> Research and funding towards regional payment system integration Cease to fund unfit-for-purpose payment systems Foster regional knowledge exchange between regulators 	<ul style="list-style-type: none"> Assist with development of real-time, low-value, high-volume, proxy-enabled retail channels that can accommodate accountless, ad-hoc transactions Regulator capacity building
Cost of liquidity management	<ul style="list-style-type: none"> Host design sprints Collate best practices for liquidity management Gap analysis on digital infrastructure and level of cash utilisation in order to concentrate cash reticulation on digitally underserved areas 	<ul style="list-style-type: none"> Research and guidance on implementation of risk-appropriate offline modalities
Lack of cash-in/cash-out points	<ul style="list-style-type: none"> Spatial mapping and gap analysis of interaction points Funding and research of value chain digitisation projects Research on drivers of digital uptake, particularly in areas already well-covered by ICT infrastructure 	<ul style="list-style-type: none"> Assist with digital infrastructure seed funding Assess regulatory inefficiencies with regards to the difference of over-night vault cash versus central-bank deposit
Cost of agent management	<ul style="list-style-type: none"> Assist with agent roll-out strategies (fund GIS mapping, rationalise inefficiencies in agent management structures) Research on agent use cases and incentive structures 	<ul style="list-style-type: none"> Establish a centralised marketing intelligence to enable more effective utilisation of agent resources Technical assistance and consultations of industry norms and standards - universal agent access/ interoperability
Lack of competition	<ul style="list-style-type: none"> Research and pilot funding for for-purpose products Research and technical assistance on guidelines around transparency in pricing Fund foreign exchange hub pilots 	<ul style="list-style-type: none"> Foster strategic value chain partnerships Research on market practices and anti-competitive behaviour Develop trusted comparative information for consumers
Cost of licensing	<ul style="list-style-type: none"> Research prudential risks of all licences; align licensing regime appropriately 	<ul style="list-style-type: none"> Develop guidelines for regulators on RBS and implementation of appropriate risk-based supervisory processes

DEVELOPMENT PARTNERS

Barrier	Recommendation
Cost of foreign exchange controls	<ul style="list-style-type: none"> • Research on effects of foreign exchange controls at micro- and macro-level • Technical assistance on the softening of exchange controls, particularly with regards to SME growth and low-value retail consumers • Research on parallel market that foreign exchange controls fuel
Lack of connectivity	<ul style="list-style-type: none"> • Assist with electricity quality and penetration • Initiate public-private dialogue around mobile coverage to drive network expansion and support quality of service • GIS analysis of services overlaid with population density to discover gaps in digitisation • Investigate implementation of risk-appropriate, offline digital transactions, including offline digital identity • Development of joint working groups with multi-ministerial representatives (communications regulator, payments regulator, ICT regulator)
Outdated/ inefficient IT systems	<ul style="list-style-type: none"> • Assist with ISO20022 integration; capacity building • Technical assistance, upskilling staff • Support undercapitalised yet vital institutions for lower-income consumers with IT system development
Limited data availability	<ul style="list-style-type: none"> • Harmonise data standards and taxonomies across regulators • Train regulators on common standards regularly; ensure continuity • Leverage regional platforms such as AFI, ESAAMLG, GIABA, GABAC, AIR for trainings on data quality • Country diagnostics on the informal market to size informal flows • Introduce global data quality standards • Fund qualitative data initiatives to bridge quantitative data gaps
Lack of skilled staff	<ul style="list-style-type: none"> • Assist with improving course content • Enable knowledge exchange between regulators • Develop learnerships and bursary programmes contingent upon service in local institutions • Study exchange and knowledge transmission for regulators • Secondment programmes from developed to developing markets to facilitate knowledge transfer
Lack of interest by banks	<ul style="list-style-type: none"> • Policy recommendations around the adjustment of banking licences with a flexible inclusion component (incl. remittances) • Develop code of market conduct, banking practice, treating customers fairly, financial services charters that require banks to ensure fair service provision
Cost of remittance taxes	<ul style="list-style-type: none"> • Systematic study of feasibility and implications of taxation of (outward and inward) remittance flows • Analytical modeling of remittance taxes • Compile body of evidence; organise events and workshop around the topic • Understand the micro- and macro-implications on remittances
Lack of regulatory consultation	<ul style="list-style-type: none"> • Create mandates and structures of consultative forums • Develop policy guidance on and seed funding for creation of forums
Lack of trust	<ul style="list-style-type: none"> • Research on consumer protection and recourse best practices • Research on drivers of DFS uptake • Set up industry-pricing comparison information portals • Set up consumer recourse ombudsman • Deployment of regtech to better understand market abuses and analyse complaints
Cost of compliance	<ul style="list-style-type: none"> • Costing exercise for different tiers of providers • Assist with regional harmonisation through entities such as AFI and FATF • Funding of inclusive compliance model studies • Provide policy recommendations on cost of compliance for regulators and policy makers
Time of transfer	<ul style="list-style-type: none"> • Foster strategic partnerships • Leverage resources, skills and institutions in developed markets to assist with local-to-local currency transfers • Develop guidance on how to protect developing country customer data to foster deployment cloud-based services

Appendix 2: List of useful resources

International guidelines and guidance principles

- Bank of International Settlements: [Remittances guiding principles](#)
- International Monetary Fund: [Balance of payments and international investment position manual](#)
- FATF: [Recommendations against money laundering and terrorist financing](#)
- GSMA: [Code of conduct for mobile money providers](#), [Guidelines on mobile money data protection](#), [Mobile money policy and regulatory handbook](#)

Datasets

- World Bank: [International remittances and migration data](#)
- World Bank: [Remittances pricing](#)
- World Bank: [Global Findex dataset](#)
- FinMark Trust: [FinScope consumer surveys](#)
- GSMA: [Mobile money regulatory index](#)

Research reports

- Alliance for Financial Inclusion/FSDA/Cenfri: [KYC innovation and financial inclusion](#)
- FSDA/Cenfri: [Barriers to remittances in sub-Saharan Africa series](#); [Biometrics and financial inclusion in SSA: A roadmap](#)
- FSDA/Developing Market Associates: [Reducing Costs and Scaling Up UK to Africa Remittances Through Technology](#); [Moving Money and Mindsets](#)
- FSDA/BFA: [Refugees in Rwanda gain access to finance](#)
- International Fund for Agricultural Development: [Sending remittances home series](#), [PRIME Africa initiative](#)
- GSMA: [Lessons from licensing mobile money providers](#)

Online courses

- Digital Frontiers Institute/The Fletcher School at Tufts University: [Money Transfers online course](#), [Regulation in Digital Finance online course](#)
- Cambridge Centre for Alternative Finance: Online executive education programme - [FinTech & Regulatory Innovation](#)
- [GSMA trainings](#): Unlocking rural mobile connectivity; Bridging the Mobile Gender Gap; Leveraging mobile to drive women's financial inclusion

Appendix 3: summary of case studies

Figure 4 lists the insights across the four case studies from Uganda, Ethiopia, Côte d'Ivoire and Nigeria. The following cross-cutting trends around the challenges emerged:

- Regulation is one of the biggest determinants of costs, especially driven by:
 - Type of institution that can offer remittances (banks versus MTOs versus other RSPs)
 - Licensing requirements (RSPs and agents) and length of waiting times (risk appetite)
 - Willingness of regulator around innovation
- Foreign exchange and capital outflow regulation/control one major cause of informality (parallel markets):
 - Sending: limits on sending out; lack of licences for sending out
 - Receiving: pegged exchange rates when currency overvalued; type of institution that can receive
- Agent management major cost driver, including:
 - Liquidity; recruitment and staff turn-over; training; incentives; licensing
- Mobile money can act as a powerful enabler of cross-border remittances, both domestically and cross-border; conditions:
 - MNOs can get a mobile money licence, yet need to be carefully monitored
 - Mobile device penetration is high and network coverage wide/stable
 - Cash-out is reduced by establishing digital ecosystem
- Agent exclusivity is still de facto an issue; mostly driven by:
 - Licensing (high barriers to entry)
 - Uncompetitive RSP practices
 - Product undifferentiation; lack of marketing
- Lack of retail EFT system, lack of interoperability and fragmented NPS access increases inefficiencies and costs; inefficiencies around regional payment systems increase costs.
- Access to interoperable, biometric ID databases and RBA lowers KYC burden in the long term, but the lack of risk assessment is preventing the latter.
- Mistrust in formal channels is a major driver of informality.

The case studies also revealed a number of enablers that show how efficiencies can be achieved:

- Where provider competition is high, costs are lower.
- A willing regulator is a first step towards finding the right country path towards a fit-for-purpose regulation-for-innovation framework.
- Modern NPS pays off in the long run, as it is set up to accommodate future innovation.
- Electronic signatures can ease the onboarding process.
- No taxes increase mobile money uptake.

Prioritising the removal or reduction of the barriers according to the impact on cost and access for the consumer can be a first step towards achieving greater efficiencies in the region. This, in turn, leads to greater formal remittance flows and an eventual reduction in informality if the formal services can offer greater value to the consumer than informal services can. To achieve a reduction in the cost for providers and consumers, a holistic approach is vital to ensuring sustainable positive impact for cross-border payments.

	Commercial/ business case	Regulation	Infrastructure	Consumer-facing
Uganda	MTO competition high		Large agent network	High uptake of MM
		Willing regulator		High ID penetration
		X-border regulatory requirements clear (MTOs)		
		No capital controls		
	Agent management	Licensing delays	Lack of interoperability between RSPs	Lack of digital use cases
		Lack of data on AML-CFT risks	Lack of switch	
		Mobile money tax	Poor network coverage	
	Oligopoly (MNO)	No binding MM regulation	No operational ID database	Preference for cash
		E-signatures forbidden	Poor electrification	
		POA requirement		
	Competition from informal	Ad hoc approach to r4i	System integration	Literacy
	Lack of data for business case	Licensing costs	Poor road networks	
	Bank partnerships	Unclear KYC requirements around local IDs		
Ethiopia	MTO competition high (outside SSA)			
		Dedication to financial inclusion (via access)	Mandated branch roll-out	High ID penetration
	No mobile money	Foreign exchange controls	Lack of EFT system	Poverty (lack of mobile phones)
	Competition from informal	Licensing delays, controlling regulator	Reliance on RTGS	Illiteracy
		Restrictive agent banking	Lack of interoperability	Lack of trust in formal (privacy)
		Lack of e-money licences for non-banks	Poor network coverage	Preference for cash
		Lack of data on AML-CFT risks	Lack of access points	Low levels of financial inclusion
	Oligopoly/monopoly (bank and MNO)	Constrained capacity	No operational ID database	
	Bank partnerships	POA requirement	Poor electrification and roads	
	Constrained capacity	E-signatures forbidden	Liquidity access	ID forgery
	Lack of data for business case	High compliance costs		Cash forgery
	Limited trust within the industry			

	Commercial/ business case	Regulation	Infrastructure	Consumer-facing
Côte d'Ivoire	RSP competition high within WAEMU	Harmonised reg. framework in WAEMU	Regional payment system	
			Network and road infrastructure	
		No PoA required		
		Willing regulator		
		Mobile money tax		
	MNOs restrict market access	No RBA adoption/framework	Only banks access regional switch	Low ID penetration
	Agent management	Slow approval process	No interoperability (MTOs and MMOs)	Lack of digital use cases
		E-money restricted to WAEMU	No retail EFT system	
	Excessive forex cost (outside WAEMU)	E-signatures and KYC e-storage not allowed	No operational ID database	Lack of trust in formal
		Wait-and-see approach		Preference for cash
		Lack of BoP codes		
	Cybercrime		Limited rural bank branch penetration	Lack of mobile money adoption
	Lack of data for business case		Electricity and 3G penetration	Languages/digital literacy
	Bank partnerships			
Nigeria		Clear regulatory framework for x-border FSPs	BVN	
		Willing regulator	Innovative, well-structured NPS	
			Interoperability	
	MTO comp. high (developed countries)	E-signatures allowed		High USSD adoption
				High number of mobile phones
	Comp. from informal (parallel forex)	Tight forex and exchange rate management	Low level of access points in rural areas	Low adoption of mobile money
			Small agent network	Decreasing levels of FI
				Preference for cash
	Oligopoly within SSA (x-border MTOs)	Restrictive e-money: MNOs/MMO licence	Fragmentation of ID databases	Incomplete BVN onboarding
	Bank dominance domestically	Tight capital outflow controls	Network downtime	Lack of digital use cases
	Agent management	Cost of cross-border MTO/MMO licences		Literacy
		POA requirement		Lack of trust in formal
		Frequent regulatory changes; uncertainty (MM)		
	System fragmentation	Agent licensing delays	BVN equipment costs	Language
Cybercrime	Lack of data on AML-CFT risks but KYC tiers	Electricity	ID forgery	
SIM swaps	E-storage not allowed	Cash note degradation		
IT resources capacity		Poor roads		
Lack of reliable data for business case				

Figure 4. Country case study overview

About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policy makers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa

FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.